

Message Text

SECRET

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----113544 170148Z /61
R 162200Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3456

S E C R E T SECTION 01 OF 04 PARIS 19394

EXDIS

USOECD

FOR S/S

E.O. 11652: GDS
TAGS: EGEN, OECD
SUBJECT: MEMCON OF MEETING BETWEEN THE SECRETARY AND
JAPANESE MINISTER USHIBA

FOLLOWING IS A DRAFT MEMCON FOR MEETING BETWEEN THE
SECRETARY AND JAPANESE MINISTER USHIBA HELD JUNE 15
IN PARIS. TIME DID NOT PERMIT CLEARANCE BY PARTICI-
PANTS:
DATE: JUNE 15
TIME: 12:15
PLACE: USOECD

PARTICIPANTS - U.S.

SECRETARY VANCE
UNDER SECRETARY SOLOMON
UNDER SECRETARY COOPER
REPRESENTATIVE FRENZEL
DEPUTY ASSISTANT SECRETARY HORMATS
THOMAS C. HUBBARD (NOTETAKER)
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PARTICIPANTS - JAPAN

MINISTER USHIBA
REISHI TESHIMA, DIRECTOR-GENERAL FOR ECONOMIC AFFAIRS,
FOREIGN MINISTRY
NOBUTOSHI AKAO, PRIVATE SECRETARY TO MINISTER USHIBA

YOSHIJI NOGAMI, JAPANESE PERMANENT DELEGATION

1. MINISTER USHIBA NOTED THAT HE WOULD BE IN WASHINGTON NEXT WEEK TO MEET WITH STRAUSS AND LATER TO PARTICIPATE IN A JOINT MEETING WITH STRAUSS AND HAFERKAMP. SECRETARY VANCE SAID IT WAS IMPORTANT THAT ESSENTIAL AGREEMENT COME OUT OF THESE MEETINGS ON THE MAIN ELEMENTS OF AN MTN PACKAGE. MINISTER USHIBA INDICATED THAT HE HAD TALKED RECENTLY WITH STRAUSS AND THAT THEY HAD AGREED TO MAKE THE END OF THE MONTH THEIR DEADLINE FOR AGREEMENT SO THAT STRAUSS WOULD BE ABLE TO REPORT TO THE PRESIDENT PRIOR TO THE SUMMIT. MINISTER USHIBA THOUGHT THE MAIN PROBLEM WAS HOW TO MAKE THE EC PARTICIPATE MORE ACTIVELY IN THE SEARCH FOR AN AGREEMENT.

2. SECRETARY VANCE INDICATED HE HAD TALKED WITH JENKINS AND UNDERLINED TO HIM THE IMPORTANCE OF THE MEETINGS NEXT WEEK AND THE NEED TO COME TO AN AGREEMENT. SECRETARY VANCE SAID HE UNDERSTOOD THAT AGRICULTURE WOULD BE VERY DIFFICULT FOR THE EC.

3. UNDER SECRETARY COOPER SAID HE COULD SEE AT LEAST THE SHAPE OF A DEAL ON AGRICULTURE. APART FROM TARIFF CUTS, THE MAIN PROBLEMS WERE SUBSIDIES AND COUNTER-VAILING DUTIES AND SELECTIVE SAFEGUARDS. UNDER
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SECRETARY SOLOMON SAID HE THOUGHT SUBSIDIES WOULD BE THE MOST DIFFICULT ISSUE FOR THE EUROPEANS.

4. MINISTER USHIBA INDICATED THAT THERE WAS GENERAL AGREEMENT THAT SELECTIVE SAFEGUARDS WOULD BE PERMITTED IN SOME CASES BUT THAT THERE REMAINED DIFFERENCES OVER THE CONDITIONS UNDER WHICH THEY COULD BE EMPLOYED. THE EUROPEANS MAINTAINED THAT IF THE EXPORTING COUNTRY DID NOT AGREE TO SELECTIVE SAFEGUARDS THE IMPORTING COUNTRY SHOULD BE ABLE TO PUT THEM INTO EFFECT AND REPORT SUBSEQUENTLY TO THE CONTROLLING BODY. THE JAPANESE POSITION WAS THAT IF THE EXPORTER DID NOT AGREE TO SAFEGUARDS THE IMPORTING COUNTRY SHOULD HAVE TO GO

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TO THE CONTROLLING BODY FOR APPROVAL PRIOR TO PUTTING
THEM INTO EFFECT. UNDER SECRETARY COOPER INDICATED
THAT WITHIN THE EC THE BRITISH WERE GIVING THE MOST
SUPPORT TO FRANCE ON THIS QUESTION. WE ACCEPTED
THE PRINCIPLE OF SELECTIVE SAFEGUARDS BUT WANTED
TO TIGHTEN THE PROSE ON THEIR CONDITIONS.

5. MR. COOPER WENT ON TO SAY THAT GOVERNMENT
SUBSIDIES WERE LIKELY TO BE THE MAIN PROBLEM OF THE
80'S AND 90'S. WE THEREFORE NEEDED TO GET A CODE.
WE WOULDN'T BE ABLE TO IRON OUT ALL THE DETAILS
BUT WE SHOULD ACHIEVE AGREEMENT ON GENERAL PRINCIPLES
AND A PROCEDURE FOR TRACKING THEIR IMPLEMENTATION.
HE SAID THE EC WAS RESISTANT BUT IN AGREEMENT IN
PRINCIPLE.

6. MINISTER USHIBA INDICATED THAT EUROPEAN DIS-
CRIMINATORY QUOTAS ON JAPANESE EXPORTS AND
BILATERAL SAFEGUARD AGREEMENTS REMAINED A PROBLEM.
ALTHOUGH HE THOUGHT THE BILATERAL SAFEGUARD ISSUE
COULD BE RESOLVED, THE GOJ WOULD HAVE DIFFICULTY
EXPLAINING TO THE DIET THAT THEY COULD NOT REMOVE
THE DISCRIMINATORY QUOTAS.

7. UNDER SECRETARY COOPER EMPHASIZED THAT THE JAPANESE
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OFFER ON TARIFF CUTS WAS NOT SATISFACTORY AS IT
STANDS. HE STRESSED THAT THE MTN COULD NOT SUCCEED
ON THIS BASIS, NOTING THAT THIS WAS AN ISSUE OF HIGH
INTENSITY IN WASHINGTON.

8. TURNING TO THE SUMMIT, UNDER SECRETARY SOLOMON NOTED THAT AT THE G-5 MEETING ON JUNE 14 THE JAPANESE HAD INDICATED THAT PRIME MINISTER FUKUDA MIGHT NOT PROPOSE A SUPPLEMENTARY BUDGET. ALTHOUGH JAPANESE PERFORMANCE IN TERMS OF REAL GROWTH HAD NOT BEEN TOO BAD, UNDER SECRETARY SOLOMON STRESSED THE IMPORTANCE FOR THE SUMMIT THAT NOT ONLY THE GEMRANS BUT ALSO THE JAPANESE SHOW MOVEMENT ON GROWTH. HE RECALLED THAT THE JAPANESE GROWTH TARGET OF 7 PERCENT WAS SUPPOSED TO BE BASED ON GROWTH IN DOMESTIC DEMAND RATHER THAN EXPORTS. HE INDICATED THAT GROWTH OF 7 PERCENT WOULD NOT BE SATISFACTORY IF IT INCLUDED AN EXPORT COMPONENT. HE DOUBTED THAT 7 PERCENT REAL GROWTH IN DOMESTIC DEMAND COULD BE ACHIEVED WITHOUT A SUPPLEMENTAL BUDGET. SECRETARY VANCE ALSO EMPHASIZED THAT THIS WAS AN IMPORTANT POINT FOR THE SUMMIT.

9. MINISTER USHIBA POINTED OUT THAT JAPAN HAD REGISTERED REAL GROWTH OF 10 PERCENT IN MARCH, ABOUT 1/3 OF WHICH REPRESENTED EXPORTS. HE EMPHASIZED JAPAN'S COMMITMENT TO REDUCE ITS CURRENT ACCOUNT SURPLUS, INDICATING THAT THE PRIME MINISTER WAS DETERMINED TO ACHIEVE 7 PERCENT REAL GROWTH WITHOUT A LARGE EXPORT COMPONENT.

10. UNDER SECRETARY COOPER POINTED OUT THAT THE ORIGINAL UNDERSTANDING CALLED FOR NEGATIVE GROWTH ON THE EXTERNAL SIDE. MINISTER USHIBA SAID THAT ZERO
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GROWTH IN EXPORTS WAS THE ORIGINAL PLAN. HE EMPHASIZED THAT THIS REMAINED THE PRIME MINISTER'S AIM AND THAT HE WOULD TAKE ALL REASONABLE AND APPROPRIATE STEPS TO ACHIEVE IT. HE NOTED THAT THIS TARGET WAS FOR THE FISCAL YEAR WHICH ONLY BEGAN IN APRIL.

11. TURNING TO THE QUESTION OF EXPORT CREDITS, UNDER SECRETARY COOPER POINTED TO THE OECD MINISTERIAL STATEMENT BY SECRETARY BLUMENTHAL. HE NOTED THAT IN THE CASE OF JAPAN A PARTICULAR PROBLEM WAS THE USE OF GOVERNMENT FINANCING FOR LOCAL COSTS ASSOCIATED WITH EXPORT CREDITS. HE NOTED THAT THIS WAS NOT A TECHNICAL VIOLATION OF THE OECD CONSENSUS BUT THAT WE SAW IT AS GOING AGAINST THE SPIRIT OF THE STRAUSS/USHIBA COMMUNIQUE WHICH CALLED FOR RESTRAINED USE OF EXPORT CREDITS AS A MEANS OF REDUCING JAPAN'S SURPLUS.

12. UNDER SECRETARY SOLOMON, NOTING THAT JAPAN'S

SURPLUS WAS NOW CONSIDERABLY LARGER THAN THAT

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OF SAUDI ARABIA, STRESSED THAT EXPORT CREDITS WERE AN AREA WHERE JAPAN SHOULD GO EASY EVEN IF ITS ACTIONS WERE TECHNICALLY PERMISSIBLE. THE QUESTION OF EXPORT CREDITS MIXED WITH AID WAS ALSO TAKEN UP, UNDER SECRETARY SOLOMON INDICATING THAT WHILE THERE WAS NO STRICT AGREEMENT ON THIS QUESTION THE SPIRIT OF THE OECD CONSENSUS WAS THAT EXPORT CREDITS AND AID SHOULD NOT BE MIXED. MINISTER USHIBA SAID HE WOULD REPORT BACK TO THE PRIME MINISTER ON BOTH OF THESE POINTS.

13. TURNING TO AID QUESTIONS, UNDER SECRETARY COOPER SAID THAT THE PRIME MINISTER HAD BEEN VERY HELPFUL IN HIS COMMITMENT TO A THREE-YEAR DOUBLING OF AID. HE UNDERSTOOD, HOWEVER, THAT THERE WAS CONTROVERSY IN JAPAN OVER HOW TO MEASURE THE INCREASE, SOME ADVOCATING THAT IT WOULD BE MEASURED ON THE BASIS OF 1976 FIGURES, IN DOLLARS, WHICH WOULD MEAN ALMOST NO INCREASE. HE UNDERSTOOD THAT OTHERS FAVORED BASING IT ON 1977 AND YEN TERMS. HE INDICATED WE WOULD OBVIOUSLY PREFER THE SECOND FORMULA. MINISTER USHIBA SAID THERE WOULD BE A CABINET MEETING ON THIS QUESTION ON JUNE 20 AND THAT THE PRIME MINISTER WOULD ISSUE A CLEAR DIRECTIVE.

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14. UNDER SECRETARY SOLOMON SAID HE UNDERSTOOD THAT JAPAN HAD ACCEPTED A MACNAMARA PROPOSAL FOR 500 MILLION DOLLARS IN CO-FINANCING WHICH WOULD NOT BE TIED. MINISTER USHIBA INDICATED MACNAMARA HAD NOT MENTIONED 500 MILLION DOLLARS. ASKED IF SUCH A COMMITMENT WERE LIKELY AT THE SUMMIT, MINISTER USHIBA RESPONDED NEGATIVELY, SAYING THAT NO ONE WAS PUSHING TOO HARD ON THIS. MINISTER USHIBA ADDED THAT JAPAN WAS DOING A LOT OF UNTYING AND ANTICIPATED THAT UNTIED AID WOULD SOON REACH A LEVEL OF 80 PERCENT. HE INDICATED THAT JAPAN WAS PUSHING FOR A TOTAL UNTYING AND COULD PERHAPS UNTIE AN ADDITIONAL 6 PERCENT THIS YEAR. UNDER SECRETARY SOLOMON SAID IT WOULD MAKE SENSE FOR JAPAN TO INDICATE THAT IN LIGHT OF ITS LARGE SURPLUS ALL AID WOULD BE UNTIED, PERHAPS RESERVING THE RIGHT TO RETURN TO TYING WHEN THE SURPLUS WAS REDUCED. HE STRESSED THAT JAPAN'S EXCHANGE RATE PROBLEM WOULD CONTINUE UNTIL THE SURPLUS WAS REDUCED.

15. UNDER SECRETARY COOPER EMPHASIZED THAT IT WAS IMPORTANT THAT JAPANESE AID BE UNTIED IN FACT RATHER THAN JUST IN PRINCIPLE. MINISTER USHIBA NOTED THAT UNTYING COULD DELAY DISBURSEMENT OF AID AND THAT IT WOULD BE DIFFICULT TO SELL TO THE DIET THE UNTYING OF GRANT AID. HE STRESSED THE VIEW THAT JAPAN WAS DOING AS MUCH AS POSSIBLE IN THIS AREA.

16. MINISTER USHIBA EMPHASIZED THAT JAPAN WAS VERY CONCERNED THAT THE U.S. BRING TO THE SUMMIT SOMETHING POSITIVE ON ENERGY POLICY. HE THOUGHT THAT THE SUMMIT WOULD BE VERY DIFFICULT WITHOUT THAT. SECRETARY VANCE SAID WE ACCEPT THAT POINT AND EXPECT TO
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BE ABLE TO MAKE A STATEMENT AT THE SUMMIT WHICH WILL

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SATISFY THE OTHER PARTICIPANTS.

17. MINISTER USHIBA SAID THAT EXCHANGE RATE STABILITY REMAINS A PROBLEM FOR JAPAN. JAPAN RECOGNIZES ITS RESPONSIBILITY BUT ALSO FEELS THAT MUCH DEPENDS ON U.S. ACTION TO REDUCE ITS DEFICIT. MINISTER USHIBA STRESSED THAT JAPAN IS SEEKING A MORE BALANCED EFFORT AND REAL COOPERATION.

18. UNDER SECRETARY SOLOMON SAID THAT MINISTER USHIBA WAS RIGHT IN TERMS OF FUNDAMENTAL POLICIES. THE U.S. WAS TIGHTENING ITS FISCAL AND MONETARY MEASURES, TRYING TO DO SOMETHING ON ENERGY AND UNDERTAKING A MAJOR EXAMINATION OF A LONG-TERM EXPORT EXPANSION PROGRAM. HE INDICATED THAT INTER-AGENCY RECOMMENDATIONS ON EXPORT EXPANSION WOULD GO TO THE PRESIDENT NEXT WEEK.

19. MINISTER USHIBA SAID THAT JAPAN WOULD LIKE TO MAKE PROGRESS IN THE JOINT STUDY OF ENERGY MEASURES AND WOULD PERHPAS SEND SOME IDEAS AT THE END OF NEXT MONTH. HE NOTED THAT THE U.S. AND JAPAN WOULD HAVE TO RETURN AGAIN TO A BILATERAL DISCUSSION OF NUCLEAR MATTERS WHEN THE INFCE CONCLUDES AND THOUGHT THAT THERE WOULD BE VERY SERIOUS PROBLEMS IN
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THIS AREA.

20. CONGRESSMAN FRENZEL SAID HE AND OTHERS WERE TRYING TO MONITOR THE TRADE FACILITATION COMMITTEE AND WOULD LIKE TO MAKE IT WORK BETTER. SECRETARY VANCE ASKED ABOUT THE ABBOTT CASE, NOTING THAT IT HAD BEEN PENDING SINCE 1972. MINISTER USHIBA SAID THAT

THE JAPANESE MINISTRY OF WELFARE TOOK THE POSITION
THAT THE CASE HAD BEEN ONCE WITHDRAWN SO THAT IT WAS
ONLY PENDING SINCE 1976. HE NOTED THAT TRADE IN
MEDICINES PRESENTED PARTICULARLY SENSITIVE PROBLEMS.
UNDER SECRETARY COOPER SAID THIS WAS AN ILLUSTRATION
OF THE NEED FOR COMMON STANDARDS IN SUCH AREAS.
KATZ

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